Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

天虹紡織集團有限公司
TEXHONG TEXTILE GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2678)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by 18.3% to RMB8,812 million
- Gross profit margin increased by 1.4 percentage points to 16.8%
- Net profit margin decreased by 1.8 percentage points to 6.9%
- Profit attributable to equity holders decreased by 6.6% to RMB602 million
- Excluding the impact of the one-off gain from acquisition of jeanswear business in 2017, profit attributable to equity holders would have increased by 20.9% of approximately RMB104 million and net profit margin would have increased by 0.1 percentage points
- Earnings per share for the period decreased to RMB0.66
- The Board declared for the payment of an interim dividend of 23 HK cents per share

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**8,811,520**	7,448,497
Cost of sales	*4*	**(7,334,468)**	(6,301,884)
Gross profit		**1,477,052**	1,146,613
Selling and distribution costs	*4*	**(322,125)**	(263,867)
General and administrative expenses	*4*	**(323,167)**	(247,447)
Reversal of net impairment losses on financial assets		**2,506**	–
Other income	*3*	**93,032**	114,447
Other (losses)/gains-net	*3*	**(45,052)**	51,632
Operating profit		**882,246**	801,378
Finance income	*5*	**5,802**	4,263
Finance costs	*5*	**(201,572)**	(57,242)
Share of profits of investments accounted for using the equity method		**8,704**	6,267
Profit before income tax		**695,180**	754,666
Income tax expense	*6*	**(88,782)**	(104,672)
Profit for the period		**606,398**	649,994
Attributable to:			
Owners of the Company		**602,411**	644,740
Non-controlling interests		**3,987**	5,254
		606,398	649,994
Earnings per share for profit attributable to owners of the Company			
— Basic earnings per share	*7*	**RMB0.66**	RMB0.70
— Diluted earnings per share	*7*	**RMB0.66**	RMB0.70

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
ASSETS			
Non-current assets			
Freehold land and land use rights		**974,343**	863,083
Property, plant and equipment		**6,969,647**	6,660,122
Investments accounted for using the equity method		**191,493**	182,789
Deferred income tax assets		**118,540**	107,558
Total non-current assets		**8,254,023**	7,813,552
Current assets			
Inventories	*9*	**4,522,847**	3,764,189
Trade and bills receivables	*10*	**1,818,504**	1,630,144
Prepayments, deposits and other receivables		**1,244,971**	637,229
Derivative financial instruments	*12*	**98,105**	134,350
Pledged bank deposits		**327,422**	88,249
Cash and cash equivalents		**1,263,532**	1,466,718
Total current assets		**9,275,381**	7,720,879
Total assets		**17,529,404**	15,534,431
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		**96,709**	96,709
Share premium		**433,777**	433,777
Other reserves		**610,896**	616,374
Retained earnings		**5,211,535**	4,763,267
		6,352,917	5,910,127
Non-controlling interests		**55,604**	65,586
Total equity		**6,408,521**	5,975,713

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**3,111,439**	2,987,229
Deferred income tax liabilities		**148,290**	149,172
Finance lease obligations		**203**	1,587
Total non-current liabilities		**3,259,932**	3,137,988
Current liabilities			
Trade and bills payables	*11*	**3,858,089**	2,961,729
Accruals and other payables		**861,180**	741,451
Current income tax liabilities		**64,789**	36,562
Borrowings		**3,008,978**	2,562,369
Derivative financial instruments	*12*	**64,955**	112,996
Finance lease obligations		**2,960**	5,623
Total current liabilities		**7,860,951**	6,420,730
Total liabilities		**11,120,883**	9,558,718
Total equity and liabilities		**17,529,404**	15,534,431

Notes:

1. GENERAL INFORMATION, BASIS OF PREPARATION AND ACCOUNTING POLICIES

Texhong Textile Group Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sales of yarns, grey fabrics and garment fabrics as well as garments.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2004.

This condensed consolidated interim financial information is presented in Chinese Renminbi ("RMB"), unless otherwise stated.

This condensed consolidated interim financial information has been approved and authorised for issue by the Board of Directors of the Company on 13 August 2018.

This condensed consolidated interim financial information has not been audited.

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with HKAS 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2017, which have been prepared in accordance with HKFRSs.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new standards, amendments and interpretation of HKFRSs effective for the financial year ending 31 December 2018.

(a) New standards, amendments and interpretation of HKFRSs adopted by the Group in the first half of 2018

A number of new standards, amendments and interpretations to existing standards became applicable for the current reporting period and the Group had to change its accounting policies. The adoption of these new standards, amendments and interpretation did not give rise to any significant impact on the Group's financial statements. These new standards, amendments and interpretation are set out below:

(i) HKFRS 9 'Financial Instruments'

Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS9.

The adoption of HKFRS 9 'Financial Instruments' from 1 January 2018 resulted in changes in accounting policies as below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument. As a result, the adjustment arising from the new impairment rules is not reflected in the balance sheet as at 31 December 2017, however, the financial impact of the new impairment rules is immaterial and is not recognised in the opening balance sheet as at 1 January 2018.

The Group has trade receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the ageing days. On that basis, the loss allowance as at 1 January 2018 was determined as follows for trade receivables:

	Within 180 days	**181 days to 1 year**	**Over 1 year**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 January 2018				
Gross carrying amount	535,000	11,200	5,157	551,357
Expected loss rate	0.05%	25%	75%	1.26%
Loss allowance	268	2,800	3,868	6,936

The Group has performed the assessment and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

The loss allowances decreased by RMB2,506,000 for trade receivables during the six months ended 30 June 2018. The decrease would have been HK$972,000 lower under the incurred loss model of HKAS 39.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 180 days.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.

Accounting policy

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment

From 1 January 2018, the Group assesses the expected credit losses associated with its financial assets on a forward looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(ii) HKFRS 15 'Revenue from Contracts with Customers'

Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The Group manufactures and sells yarns, grey fabrics and garment fabrics as well as garments in the market.

The Group rarely sold products with discounts. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts. Accumulated experience is used to estimate and provide for the discounts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made. No element of financing is deemed present as the sales are made with a credit term of less than 90 days to its customers in Mainland China and 120 days to its customers in other countries, which is consistent with market practice. A receivable is recognized when the goods are delivered and the customers has inspected and accepted the products as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The accounting treatments are the same before and after adopting the HKFRS 15.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large size and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognized. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. As a result, no accounting impact for refunds while applying HKFRS 15.

The Group didn't introduce any customer loyalty programmer which is likely to be affected by the HKFRS 15.

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

No additional cost occurs to fulfill the contract was identified.

As a result, the adoption of HKFRS 15 did not result in any impact to the financial statements as the timing of revenue recognition on sales of products is not changed.

Accounting policy

The Group manufactures and sells yarns, grey fabrics and garment fabrics as well as garments in the market. Sales are recognised when control of the products has transferred, being when the products are delivered and the customers have inspected and accepted the products. Delivery occurs when the products have been shipped to the specific location. The risks of obsolescence and loss have been transferred to the customers when either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(iii) Amendments to HKFRS 2 regarding classification and measurement of share-based payment transactions clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in HKFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

(iv) Amendments to HKFRS 4 'Insurance Contracts' provide two optional approaches to deal with the mismatched effective dates of HKFRS 9 and the new insurance contracts standard to replace HKFRS 4:

(a) The overlay approach: all companies that issue insurance contracts have the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when HKFRS 9 is applied before the new insurance contracts standard is issued; and

(b) The deferral approach: companies whose activities are predominantly connected with insurance have an optional temporary exemption from applying HKFRS 9 until 2021. Entities that defer the application of HKFRS 9 will continue to apply HKAS 39 'Financial Instruments: Recognition and Measurement'.

(v) Amendment to HKFRS 1 'First Time Adoption of HKFRS', is a part of the annual improvements to HKFRSs 2014–2016 Cycle. This deletes the short-term exemptions covering transition provisions of HKFRS 7, HKAS 19, and HKFRS 10. These transition provisions were available to entities for passed reporting periods and are therefore no longer applicable.

(vi) Amendment to HKAS 28 'Investments in Associates and Joint Ventures', is a part of the annual improvements to HKFRSs 2014-2016 Cycle. This allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). This election should be made separately for each associate or joint venture at initial recognition.

(vii) Amendments to HKAS 40 regarding transfers of investment property, clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. The Board confirmed that a change in intention, in isolation, is not enough to support a transfer.

(viii) HK (IFRIC) 22 'Foreign Currency Transactions and Advance Consideration', clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

(b) The following new standard, amendments and interpretation of HKFRSs have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group:

(i) ***HKFRS 16 'Leases'***

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at 30 June 2018, the Group has non-cancellable operating lease commitments of RMB221 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

(ii) HK (IFRIC) 23 'Uncertainty over Income Tax Treatments', effective for annual periods beginning on or after 1 January 2019.

(iii) Amendments to HKFRS 28 'Investments in Associates or Joint Ventures', originally intended to be effective for annual periods beginning on or after 1 January 2016, effective for annual periods beginning on or after 1 January 2019.

(iv) Amendments to HKFRS 3 'Business Combinations', effective for annual periods beginning on or after 1 January 2019.

(v) Amendments to HKFRS 11 'Joint Arrangements', effective for annual periods beginning on or after 1 January 2019.

(vi) Amendments to HKFRS 12 'Income Taxes', effective for annual periods beginning on or after 1 January 2019.

(vii) Amendments to HKAS 23 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2019.

(viii) Amendments to HKAS 19 'Employee Benefits', effective for annual periods beginning on or after 1 January 2019.

2. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sales of yarns, grey fabrics and garment fabrics as well as garments. Revenue recognised for the period represented sales of goods, net of value-added tax.

The Committee of Executive Directors is the Group's chief operating decision-maker. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Committee of Executive Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Committee of Executive Directors considers the business from both a product and geographical perspectives, management assesses the performance from sales of yarns, grey fabrics and garment fabrics as well as garments. The operations are further evaluated on a geographic basis including Mainland China (and Hong Kong), Vietnam, Macao, Cambodia and Nicaragua.

The Committee of Executive Directors assesses the performance of the operating segments based on revenue and operating profit.

The segment information for the six months ended 30 June 2018 is as follows:

	Unaudited											
	Six months ended 30 June 2018											
	Yarns			Garment fabrics and Garments					Grey fabrics			
	Mainland China and Hong Kong	Vietnam	Macao	Mainland China and Hong Kong	Macao	Cambodia	Vietnam	Nicaragua	Mainland China and Hong Kong	Vietnam	Macao	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	**6,182,663**	**3,431,328**	**6,750,324**	**1,081,836**	**19,631**	**68,544**	**220,967**	**15,273**	**384,449**	**255,741**	**180,922**	**18,591,678**
Inter-segment revenue	**(276,524)**	**(3,248,799)**	**(5,525,088)**	**–**	**(19,631)**	**(66,042)**	**(212,811)**	**(15,273)**	**–**	**(255,724)**	**(160,266)**	**(9,780,158)**
Revenue (from external customers)	**5,906,139**	**182,529**	**1,225,236**	**1,081,836**	**–**	**2,502**	**8,156**	**–**	**384,449**	**17**	**20,656**	**8,811,520**
Timing of revenue recognition												
At a point in time	**5,906,139**	**182,529**	**1,225,236**	**1,081,836**	**–**	**2,502**	**8,156**	**–**	**384,449**	**17**	**20,656**	**8,811,520**
Segment results	**396,597**	**236,080**	**216,261**	**(3,791)**	**105**	**(3,412)**	**(14,412)**	**(198)**	**18,449**	**27,596**	**1,051**	**874,326**
Unallocated profit												**7,920**
Operating profit												**882,246**
Finance income												**5,802**
Finance costs												**(201,572)**
Share of profits less losses of investments accounted for using the equity method												**8,704**
Income tax expense												**(88,782)**
Profit for the period												**606,398**
Depreciation and amortisation	**(141,053)**	**(154,109)**	**(8)**	**(10,105)**	**–**	**(11,928)**	**(19,993)**	**(4,177)**	**(6,312)**	**(11,474)**	**–**	**(359,159)**

The segment information for the six months ended 30 June 2017 is as follows:

	Unaudited									
	Six months ended 30 June 2017									
	Yarns			Garment fabrics and Garments				Grey fabrics		
	Mainland China and Hong Kong	Vietnam	Macao	Mainland China and Hong Kong	Cambodia	Vietnam	Nicaragua	Mainland China	Vietnam	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	5,499,031	3,326,540	6,087,794	209,212	89,717	98,530	29,622	267,892	2,677	15,611,015
Inter-segment revenue	(196,677)	(3,160,085)	(4,803,079)	–	–	–	–	–	(2,677)	(8,162,518)
Revenue (from external customers)	5,302,354	166,455	1,284,715	209,212	89,717	98,530	29,622	267,892	–	7,448,497
Timing of revenue recognition										
At a point in time	5,302,354	166,455	1,284,715	209,212	89,717	98,530	29,622	267,892	–	7,448,497
Segment results	378,974	233,382	43,020	27,899	(13,009)	6,771	590	9,073	(4,246)	682,454
Unallocated profit										118,924
Operating profit										801,378
Finance income										4,263
Finance costs										(57,242)
Share of profits less losses of investments accounted for using the equity method										6,267
Income tax expense										(104,672)
Profit for the period										649,994
Depreciation and amortisation	(138,751)	(153,244)	(62)	(3,471)	(3,861)	(3,488)	(1,096)	(5,542)	(4,520)	(314,035)

The segment assets and liabilities as at 30 June 2018 are as follows:

	Unaudited										
	As at 30 June 2018										
	Yarns				**Garment fabrics and Garments**				**Grey fabrics**		
	Mainland China and Hong Kong *RMB'000*	**Vietnam** *RMB'000*	**Macao** *RMB'000*	**Sub-total** *RMB'000*	**Mainland China and Hong Kong** *RMB'000*	**Cambodia** *RMB'000*	**Vietnam** *RMB'000*	**Nicaragua** *RMB'000*	**Mainland China and Hong Kong** *RMB'000*	**Vietnam** *RMB'000*	**Total** *RMB'000*
Total segment assets	**9,115,519**	**4,961,026**	**332,229**	**14,408,774**	**1,313,270**	**216,728**	**593,453**	**81,986**	**371,983**	**380,598**	**17,366,792**
Unallocated assets											**162,612**
Total assets of the Group											**17,529,404**
Total segment liabilities				**(7,050,871)**	**(831,514)**	**(15,052)**	**(418,653)**	**(6,310)**	**(74,040)**	**(270,190)**	**(8,666,630)**
Unallocated liabilities											**(2,454,253)**
Total liabilities of the Group											**(11,120,883)**
Capital expenditure	**373,491**	**320,050**	**8**	**693,549**	**14,742**	**2,700**	**28,583**	**497**	**28,926**	**25,115**	**794,112**

The segment assets and liabilities as at 31 December 2017 are as follows:

	Audited										
	As at 31 December 2017										
	Yarns				Garment fabrics and Garments				Grey fabrics		
	Mainland China and Hong Kong *RMB'000*	Vietnam *RMB'000*	Macao *RMB'000*	Sub-total *RMB'000*	Mainland China and Hong Kong *RMB'000*	Cambodia *RMB'000*	Vietnam *RMB'000*	Nicaragua *RMB'000*	Mainland China *RMB'000*	Vietnam *RMB'000*	Total *RMB'000*
Total segment assets	7,972,965	3,910,724	495,216	12,378,905	926,361	315,363	607,633	157,145	463,002	399,216	15,247,625
Unallocated assets											286,806
Total assets of the Group											15,534,431
Total segment liabilities				(5,712,077)	(446,224)	(59,609)	(403,504)	(12,922)	(69,802)	(297,927)	(7,002,065)
Unallocated liabilities											(2,556,653)
Total liabilities of the Group											(9,558,718)
Capital expenditure	427,333	82,819	–	510,152	7,601	27,203	55,251	–	70,281	53,841	724,329

3. OTHER INCOME AND OTHER (LOSSES)/GAINS — NET

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Other income		
Subsidy income (a)	**93,032**	114,447
Other (losses)/gains		
Derivative financial instruments at fair value through profit or loss:		
— Realised (losses)/profits	**(46,566)**	39,955
— Unrealised profits/(losses)	**21,064**	(127,190)
Net foreign exchange losses	**(30,865)**	(7,256)
Gains on disposals of joint ventures	**200**	–
Gains on acquisition of subsidiaries	**–**	146,578
Others	**11,115**	(455)
Total other (losses)/gains	**(45,052)**	51,632

(a) The subsidy income represented grants provided by municipal governments based on the amounts of value added tax and income tax paid. The Group has received all the subsidy income in the same period and there was no future obligation related to these subsidy income.

4. EXPENSES BY NATURE

The following expenses items have been included in cost of sales, selling and distribution costs and general and administrative expenses in the consolidated income statement.

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Cost of inventories	**5,702,474**	4,925,711
Employment benefit expenses	**1,051,672**	849,579
Utilities	**473,865**	409,094
Depreciation and amortisation	**359,159**	314,035
Transportation	**202,424**	184,656

5. FINANCE INCOME AND COSTS

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Interest expenses		
— borrowings	**151,005**	142,559
— finance lease obligations	**123**	–
	151,128	142,559
Net exchange losses/(gains) on financing activities	**50,444**	(85,317)
Finance costs — net	**201,572**	57,242
Finance income — interest income on bank deposits	**(5,802)**	(4,263)
Net finance costs	**195,770**	52,979

6. INCOME TAX EXPENSES

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
— Hong Kong, Mainland China, Vietnam and Taiwan enterprise income tax	**100,646**	84,359
Deferred income tax	**(11,864)**	20,313
	88,782	104,672

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to profits tax at rate of 16.5% (2017: 16.5%).

(ii) Mainland China enterprise income tax ("EIT")

Effective from 1 January 2008, the subsidiaries established in Mainland China are required to determine and pay the EIT in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") as approved by the National People's congress on 16 March 2007 and Detailed Implementations Regulations of the New CIT Law (the "DIR") as approved by the State Council on 6 December 2007. According to the New CIT Law and DIR, subsidiaries established in Mainland China are subject to EIT at rate of 25% (2017: 25%).

(iii) Vietnam income tax

Subsidiaries established in Vietnam are subject to income tax at rate of 20% (2017: 20%).

As approved by the relevant Tax Bureau in Vietnam, the subsidiary acquired in Vietnam in 2017 is entitled to a preferential tax rate of 7.5% during the six months ended 30 June 2018 and effective till 31 December 2018.

As approved by the relevant Tax Bureau in Vietnam, the subsidiaries established in Vietnam in 2016, 2014, 2013 and 2011 are entitled to four years' exemption from income taxes followed by nine years of a 50% tax reduction, commencing from the first profitable year after offsetting the losses carried forward from the previous years, and are entitled to a preferential income tax rate of 10% for 15 years, commencing from the first year generating income from the operation.

As approved by the relevant Tax Bureau in Vietnam, the subsidiary established in Vietnam in 2006, should separately calculate income tax on its supplementary investments. The initial investment of the subsidiary is entitled to three years' exemption from income taxes followed by seven years of a 50% tax reduction and is entitled to a preferential income tax rate of 15% for 12 years. The first supplementary investment of the subsidiary is entitled to three years' exemption from income taxes followed by five years of a 50% tax reduction based on the income tax rate of 20% (2017: 20%) The second supplementary investment of the subsidiary is entitled to two years' exemption from income taxes followed by four years of a 50% tax reduction based on the income tax rate of 20% (2017: 20%).

As approved by the relevant Tax Bureau in Vietnam, the other subsidiary established in Vietnam should separately calculate income tax on its supplementary investments. The initial investment of the subsidiary is entitled to a tax rate of 15%. The supplementary investment of the subsidiary is entitled to a tax rate of 20% (2017: 20%).

The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% during the six months ended 30 June 2018 (2017: 20%).

(iv) Other income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts or the Business Companies Acts, 2004 of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

The Company's subsidiary established in Macao is subject to income tax at the rate of 9% (2017: 9%). No provision for Macao profits tax has been made as the Group had no assessable profit arising in or derived from Macao during the six months ended 30 June 2018 (2017: nil).

The subsidiary established in Uruguay is subject to income tax at the rate of 25% (2017: 25%). No provision for Uruguay profits tax has been made as the Group had no assessable profit arising in or derived from Uruguay during the six months ended 30 June 2018 (2017: nil).

The subsidiary established in Turkey is subject to income tax at the rate of 20% (2017: 20%). No provision for Turkey profits tax has been made as the Group had no assessable profit arising in or derived from Turkey during the six months ended 30 June 2018 (2017: nil).

The subsidiaries acquired in Cambodia in 2017 and 2015 are subject to income tax at the rate of 20%. No provision for Cambodia profits tax has been made as the Group had no assessable profit arising in or derived from these subsidiaries during the six months ended 30 June 2018 (2017: nil).

The subsidiary acquired in Nicaragua in 2017 is subject to income tax at the rate of 30%. As approved by relevant Tax Bureau in Nicaragua, the subsidiary is entitled to exemption from profits tax during the six months ended 30 June 2018 and effective till 31 December 2020.

The subsidiary established in Taiwan in 2017 is subject to income tax at the rate of 17%. Taxable income under NTD120,000 is exempted from income tax (2017: nil).

The subsidiaries acquired in Samoa in 2017 are exempted from profits tax during the six months ended 30 June 2018 (2017: nil).

7. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**602,411**	644,740
Weighted average number of ordinary shares in issue (thousands)	**915,000**	915,000
Basic earnings per share (RMB per share)	**0.66**	0.70

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the Company's share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 30 June	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**602,411**	644,740
Weighted average number of ordinary shares in issue (thousands)	**915,000**	915,000
Adjustments for:		
— Share options (thousands)	**1,911**	1,442
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**916,911**	916,442
Diluted earnings per share (RMB per share)	**0.66**	0.70

8. DIVIDENDS

A final dividend of RMB156,160,000 that is related to the year ended 31 December 2017 was paid in May 2018 (2017: RMB210,137,000).

In addition, an interim dividend of HKD0.23 per share (2017: HKD0.24 per share) was proposed by the board of directors on 13 August 2018. It will be payable on or about 24 September 2018 to shareholders whose names are on the register on 12 September 2018. This interim dividend, amounting to RMB177,430,000 (2017: RMB185,935,000), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the financial statements of the Company for the year ending 31 December 2018.

9. INVENTORIES

	Unaudited 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
Raw materials	**3,303,064**	2,600,507
Work-in-progress	**264,306**	279,705
Finished goods	**955,477**	883,977
	4,522,847	3,764,189

10. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2018 ***RMB'000***	Audited 31 December 2017 *RMB'000*
Trade receivables	**582,106**	551,357
Less: provision for impairment	**(4,635)**	(7,141)
	577,471	544,216
Bills receivable	**1,241,033**	1,085,928
	1,818,504	1,630,144

The Group generally grants a credit term of less than 90 days to its customers in Mainland China and 120 days to its customers in other countries. The ageing analysis of the trade and bills receivables (including amounts due to related parties of trading in nature) by invoice date is as follows:

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Within 30 days	**1,084,237**	1,171,995
31 to 90 days	**452,066**	364,234
91 to 180 days	**277,229**	84,699
181 days to 1 year	**3,770**	11,200
Over 1 year	**5,837**	5,157
	1,823,139	1,637,285
Less: provision for impairment	**(4,635)**	(7,141)
Trade and bills receivables — net	**1,818,504**	1,630,144

11. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Trade payables	**419,027**	507,749
Bills payable	**3,439,062**	2,453,980
	3,858,089	2,961,729

The ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Within 90 days	**3,214,866**	1,900,496
91 to 180 days	**617,497**	1,021,831
181 days to 1 year	**14,469**	31,981
Over 1 year	**11,257**	7,421
	3,858,089	2,961,729

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 June 2018	Audited 31 December 2017
	RMB'000	*RMB'000*
Assets:		
Forward foreign exchange contracts *(Note (a))*	**69,854**	117,580
Cross currency swap contracts *(Note (b))*	**6,966**	324
Cotton future contracts *(Note (c))*	**21,285**	16,446
	98,105	134,350
Liabilities:		
Forward foreign exchange contracts *(Note (a))*	**6,420**	50,282
Cross currency swap contracts *(Note (b))*	**58,535**	62,714
	64,955	112,996

Non-hedging derivatives are classified as a current asset or liability.

Notes:

(a) The forward foreign exchange contracts as at 30 June 2018 comprised fourteen contracts with notional principal amounts totalling RMB3,175,968,000 (31 December 2017: thirty-one contracts with notional principal amounts totalling RMB3,861,712,000).

(b) The cross currency swap contracts as at 30 June 2018 comprised fifteen contracts with notional principal amounts totalling RMB1,997,196,000 (31 December 2017: thirteen contracts with notional principal amounts totalling RMB1,630,025,000).

(c) The cotton future contracts as at 30 June 2018 comprised nine contracts with notional principal amounts totalling USD14,640,000 (31 December 2017: four contracts with notional principal amounts totalling USD7,103,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The board of directors of the Company is pleased to present the unaudited consolidated financial results of the Group for the six months ended 30 June 2018 to our shareholders. During the period under review, the Group's revenue increased by 18.3% to RMB8.81 billion when compared with the corresponding period last year. The increase was mainly attributable to the growth in all of the Group's major business segments. However, profit attributable to equity holders for the six months ended 30 June 2018 decreased by 6.6% to RMB602 million when compared with the corresponding period last year. Earnings per share also decreased to RMB0.66 from RMB0.70 for the corresponding period last year. The year-on-year decrease in profit attributable to equity holders was mainly due to the one-off gain of RMB147 million arising from the acquisition of the jeanswear business recorded in the corresponding period last year while there was no such gain in the review period. Excluding the above one-off gain, profit attributable to shareholders for the review period would have increased by 20.9% of approximately RMB104 million when compared with the corresponding period last year, mainly attributable to the fact that the gross profit margin from the sales of yarn returned to a normal level during the review period.

Industry Review

In the first half of 2018, there was a continuous strong demand for differentiated products from the PRC market. However in the trade dispute, the PRC and the US have threatened to impose additional tariffs on each other's products, which brings uncertainty to the PRC's textile exports. If such uncertainty continues, it would have a negative impact on the textile industry of the PRC.

According to the statistics from National Bureau of Statistics of the PRC, between January and June 2018, enterprises with a sizeable capacity in the textile industry recorded an aggregate revenue of RMB1,538.44 billion from their principal activities, representing year-on-year growth of 1.1%. Total profit for the industry amounted to RMB65.13 billion, representing year-on-year decrease of 1.1%. From January to June 2018, fixed asset investments in the textile industry in the PRC amounted to RMB314.9 billion, representing a year-on-year growth of 0.8%.

According to the statistics from General Administration of Customs of the PRC, between January and June 2018, the aggregate export of textiles and garments was US$127.524 billion, representing an increase of 3.24%. Among these exports, US$58.332 billion was attributable to textiles and US$69.192 billion to garments, representing an increase of 10.28% and a decrease of 2.03% respectively. With respect to production volume, between January and June 2018, yarns, fabrics and synthetic fiber production amounted to 16.738 million tonnes, 26.72 billion meters and 24.611 million tonnes respectively, representing a year-on-year growth of 1.4%, 2.0% and 8.4% respectively.

According to the statistics from Vietnam Customs, between January and June 2018, sales of yarns and short fiber manufactured in Vietnam increased by 14.9% to 720,000 tonnes, representing a growth of 17.7% in revenue to US$1.968 billion, while garments exports increased by 13.8% to US$13.415 billion.

BUSINESS REVIEW

Currently, revenue of the Group is mainly derived from the sales of yarn. Its sales accounted for approximately 83.0% of the Group's total revenue and contributed RMB7.31 billion during the period under review. With the diversification of businesses, the Group's sales of the grey fabrics, garment fabrics and garments have increased significantly during the period, accounting for 17.0% of the Group's total revenue. Such businesses are still in the development stage and there is room for profit improvement. As the businesses involve the concept of vertical integration in the industry chain, it is expected that the profit level of the midstream and downstream businesses should surpass that of the yarn business in the foreseeable future, and accordingly the Group's overall profitability and stability should be improved.

For the six months ended 30 June 2018, the production volume of yarn was 340,000 tonnes. The Group's new yarn production capacity can serve the external demand only after first satisfying its internal demand. As some of the yarn was supplied to the Group's weaving factory for its own use, the external sales volume of yarns slightly increased by 5.1% to approximately 317,000 tonnes. As an abnormally high market demand occurred in the corresponding period last year but was not repeated during the period under review this year, the gross profit margin of yarn returned to a normal range at 18.3%.

Grey Fabric

The grey fabric factory in northern Vietnam commenced trial production in the second half of 2017. Although the production capacity was still in the adjustment phase during the period under review, the Group's sales volume of grey fabric surged by 58.4% compared with the same period of last year to over 44 million meters. Thanks to the partial vertical integration of the weaving factory and yarn mill in Vietnam, the gross profit margin of grey fabrics also increased significantly to 15.6%. With the more effective vertical integration of the factories in Vietnam and the enhancement in the product value, the gross profit margin of the grey fabric still has room for improvement in the future.

Garment Fabrics

The woven garment fabric factory in Northern Vietnam has commenced trial production in the second half last year. In May 2017, the acquisition of the woven garment fabric factory in Nicaragua, which was included in the Asian denim business of Taiwan's Nien Hsing Group was completed. At the end of last year, the acquisition of 51% equity interest of an associate engaged in the knitting and dyeing business was completed, which became 100% wholly owned. The sales of garment fabrics amounted to approximately RMB700 million during the period under review, which was more than triple from that of last year. The sales volume of self-produced woven garment fabrics and knitted garment fabrics were 19.3 million metres and 7,425 tonnes respectively and the sales volume of garment fabrics trading were 1.9 million meters and 981 tonnes respectively. As the woven garment fabric business is still in its infancy, the gross profit margin is currently only a low single digit. On the contrary, knitted garment fabric is a mature business acquired, and woven garment fabric trading is the existing business of the Group. The woven garment fabric business lowered the overall gross profit margin of the garment fabric business to 9.3%. The gross profit margin of self-produced knitted garment fabric during the period under review was 15.8%. Since the knitted garment fabric factory only became wholly-owned by the Group this year, after taking measures to improve the production and order efficiency through internal rectification and increasing the use of the yarns produced by the Group to enhance vertical integration, the profitability is expected to achieve a higher level in the future.

Jeanswear Business

With the completion of the acquisition of the jeanswear business on 1 May 2017, combined with the existing production base in Shandong, the PRC, during the period under review this year, the sales of jeanswear amounted to approximately RMB392 million. This marked a 75% increase compared to the corresponding period last year and the sales volume exceeded 8.40 million pairs. However, as the enhancement of business orders was slightly slower than expected, the current gross profit level still remained low. It is estimated that gross profit would gradually improve after the adjustment in the second half of 2018.

The operating data of the Group's products is set out below:

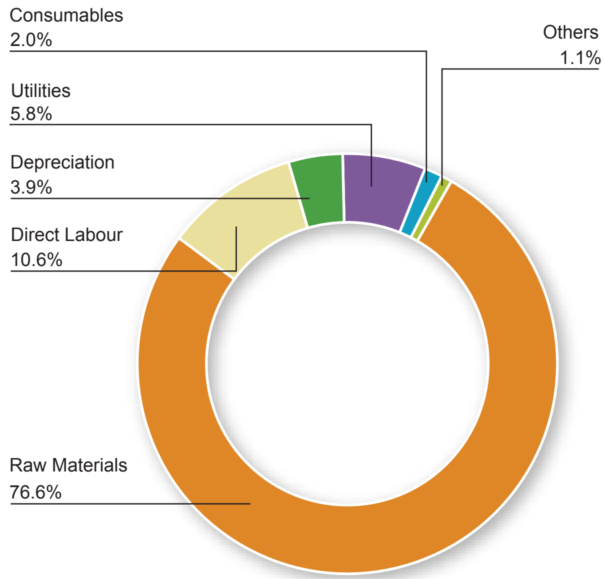
	Revenue from January to June 2018 *RMB'000*	Revenue from January to June 2017 *RMB'000*	Revenue change between 2018 and 2017
Stretchable core-spun yarns	**3,866,900**	3,700,820	4.5%
Other yarns	**3,447,004**	3,052,704	12.9%
Stretchable grey fabrics	**306,082**	228,318	34.1%
Other grey fabrics	**99,040**	39,574	150.3%
Woven garment fabrics	**309,232**	203,292	52.1%
Knitted garment fabrics	**391,052**	–	–
Jeans	**392,210**	223,789	75.3%
Total	**8,811,520**	7,448,497	18.3%

	Sales Volume		**Selling price**		**Gross profit margin**	
	January to June 2018	January to June 2017	**January to June 2018**	January to June 2017	**January to June 2018**	January to June 2017
Stretchable core-spun yarns (Ton/RMB per ton)	**162,659**	157,911	**23,773**	23,436	**18.4%**	17.3%
Other yarns (Ton/RMB per ton)	**153,958**	143,420	**22,389**	21,285	**18.2%**	15.0%
Stretchable grey fabrics (Million meters/RMB per meter)	**31.8**	22.5	**9.6**	10.1	**14.2%**	8.3%
Other grey fabrics (Million meters/RMB per meter)	**12.4**	5.4	**8.0**	7.3	**19.9%**	3.3%
Woven garment fabrics (Million meters/RMB per meter)	**21.2**	12.9	**14.6**	15.8	**2.8%**	10.0%
Knitted Garment fabrics (Ton/RMB per ton)	**8,406**	–	**46,521**	–	**14.5%**	–
Jeans (Million pairs/RMB per pair)	**8.4**	4.5	**46.7**	49.7	**2.8%**	3.3%

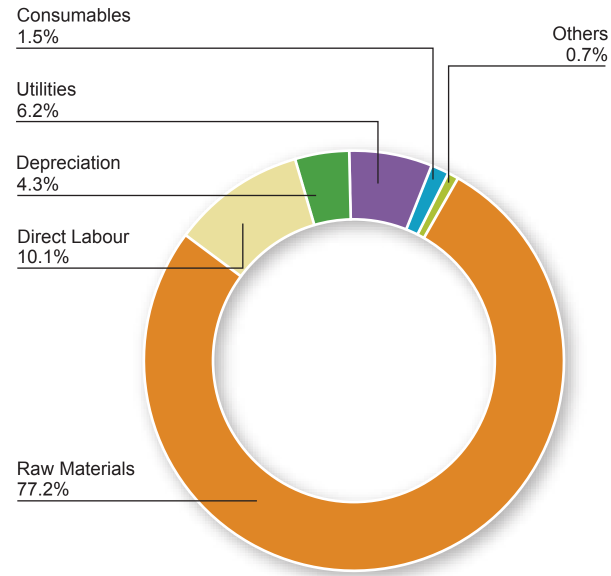
The overall gross profit margin of the Group rebounded from 15.4% for the six months ended 30 June 2017 to 16.8% for the six months ended 30 June 2018. The rebound of gross profit margin was mainly driven by the return of the gross profit margin of yarn business to a normal level during the period under review.

Cost of sales increased by 16.4% to RMB7.33 billion when compared to the corresponding period last year due to the increase in sales of various products. The cost of raw materials accounted for about 76.6% of the total cost of sales for the six months ended 30 June 2018. Cotton is one of the Group's major raw materials, accounting for about 60.9% of the total raw material cost.

The breakdown of our cost of sales for the six months ended 30 June 2018 as compared to the cost of sales for the six months ended 30 June 2017 is shown below:



January to June 2018



January to June 2017

The Group will continue to implement its established corporate strategies, optimise its product mix and develop new products that address market trends and needs. The Group will also enhance the level of vertical integration among the various business segments, promote diversified business development and further improve its financial performance.

The Group has continued to strengthen cooperation with Lenzing Fibers, the manufacturer of TENCEL® lyocell fibre and Modal® fibre in order to build long-standing strategic partnerships, using innovative fibre technologies to produce trendy functional yarns to tap the differentiated high-end market. The Group has reinforced its cooperative relationship with Toray International, Inc. of Japan, with the aim of expanding the cooperation from the yarn business to its denim garment business. In response to market demand, the Group's research and development centre in Xuzhou has been raising product quality and developing products in order to maintain its leading position in the industry, as well as satisfying customers' demand for diversified and high-end products.

The Chinese textile market has been the major market for the Group, accounting for 79.9% of total sales for the six months ended 30 June 2018. The ten largest customers of the Group for the six months ended 30 June 2018, which accounted for 17.9% of the total revenue, are as follows:

Toray International, Inc.
Shaoguan Shunchang Weaving Factory Co., Ltd.
Guangdong Qianjin Jeans Co., Ltd.
Ningbo Daqian Textile Co., Ltd.
American Eagle Outfitters, Inc.
Yixing Magnolia Garment Co., Ltd.
Baijia Dyeing Factory Ltd.
Chintex Enterprises Ltd.
XinChangJing Textiles Co., Ltd.
Haining Denim Weaving Co., Ltd.

PROSPECTS

As at 30 June 2018, the Group has an aggregate of 1.88 million spindles and 1.25 million spindles in the PRC and Vietnam respectively. In light of the strong demand for quick delivery and customised differentiated products, the Group intends to expand production capacity of 520,000 spindles and 220,000 spindles in the PRC and Vietnam respectively, totaling about 740,000 spindles, through building and acquiring production facilities, which are expected to commence trial operation successively from the fourth quarter of the year to the first half next year. Given the greater-than-expected amount of yarns for self-use and the slower-than-expected increase in production capacity, the target sales volumes of yarn for 2018 were adjusted to about 700,000 tonnes. The actual sales volume will depend on the product mix in the corresponding period.

On 1 July 2018, we completed the acquisition of a textile product sales group which has an established customer base and sales force in the US and Mexico. As a result, the Group's ability to conduct overseas sales of its products manufactured in Vietnam and Nicaragua has been greatly improved. The related products are expected to gradually be upgraded as well.

For the midstream and downstream businesses other than the yarn business, we will continue to promote the concept of industrial chain integration where practical. Varying degrees of vertical integration will be implemented for different products. The greater the degree of vertical integration, the higher and more stable the gross profit margin that may be generated. It is true that due to the differing maturity of the various midstream and downstream businesses of the Group, the formation of the respective management teams is still in progress. The Group will continue to seek possible acquisition targets in the market, similar to its acquisition of the jeanswear and knitting and dyeing businesses last year, in order to accelerate the development of its midstream and downstream business and production teams to enhance the profitability of related businesses and prepare for the subsequent rapid expansion in Vietnam.

The Group retained its place among the ranks of internationally renowned Fortune "Top 500 Companies in China 2018" announced on 19 July 2018, signifying broad recognition for its success in continuing to expand and develop its mode of business. According to the China National Textile and Apparel Council, the Group ranked third in terms of competitiveness among yarn and cotton enterprises. We will make every effort to achieve even better operating results in order to deliver long- term and sustainable returns to its shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2018, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB1,591 million (as at 31 December 2017: RMB1,555 million). The increase in pledged deposits was mainly attributable to the increase in borrowings for financing the raw materials purchases.

As at 30 June 2018, the Group's inventories increased by RMB758.6 million to RMB4,522.8 million (as at 31 December 2017: RMB3,764.2 million), and trade and bills receivables increased by RMB188 million to RMB1,818.5 million (as at 31 December 2017: RMB1,630.1 million). The inventory turnover days and trade and bills receivables turnover days were 102 days and 35 days respectively, as compared to 87 days and 36 days respectively as at 31 December 2017. The increase in inventory turnover days was mainly due to the increase of cotton inventory level prepared for new capacity. The trade and bills receivables turnover days was slightly lower than that of the corresponding period last year. Trade and bills payables increased to RMB3,858.1 million (as at 31 December 2017: RMB2,961.7 million). The increase was mainly due to increased purchases of raw materials and equipments.

As at 30 June 2018, the Group's borrowings increased by RMB570.8 million to RMB6,120.4 million (as at 31 December 2017: RMB5,549.6 million), which were mainly due to the financing for increased capital expenditures and raw material procurement for the planned new capacity.

As at 30 June 2018 and 31 December 2017, the Group's financial ratios were as follows:

	30 June 2018	31 December 2017
Current ratio	**1.18**	1.20
Debt to equity ratio[1]	**0.96**	0.94
Net debt to equity ratio[2]	**0.71**	0.68

1 Based on total borrowings over equity attributable to shareholders

2 Based on total borrowings net of cash and cash equivalents and pledged bank deposits over equity attributable to shareholders

Foreign exchange risk

The Group mainly operates in the PRC and Vietnam. Most of the Group's transactions, assets and liabilities are denominated in Renminbi and US dollar. Foreign exchange risk may arise from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's exposure to foreign exchange risk is mainly attributable to its bank borrowings and raw material procurement denominated in US dollar and Hong Kong dollar. The Group manages its foreign exchange risks by performing regular reviews and closely monitoring its foreign exchange exposures.

To mitigate the risk of depreciation of Renminbi, the Group has taken steps to control its foreign currency exposure by purchasing a suitable amount of currency option contracts. As at 30 June 2018, other than bills payable, which fall due within 6 months and its exposure was reduced partially by purchasing a number of foreign currency option contracts, the Group also had exposure in borrowings of HK$1,200 million and US$15.50 million pending for entering into option contracts. The protection offered by some of the currency option contracts entered is only to the extent of USD1 to RMB7.6. In the event that Renminbi depreciates beyond that level, the Group will be required to bear the relevant foreign exchange risk. The Group will continue to enter into option contracts to reduce the foreign currency exposure arising from the borrowings.

Capital expenditure

For the six months ended 30 June 2018, the capital expenditure of the Group amounted to approximately RMB794 million (for the six months ended 30 June 2017: RMB295 million), which was mainly related to the production capacity of yarns under construction in Vietnam and in the PRC during the period.

Disclosure pursuant to Rule 13.18 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

As announced by the Company on 18 May 2015, by an agreement dated 18 May 2015 ("2015 Facility Agreement") entered into by, among others, the Company as borrower and a syndicate of banks and financial institutions as lenders, the lenders have agreed to grant a term loan facility ("2015 Facility") of up to the aggregate principal amount of US$110 million. The purpose is for all amounts borrowed under the 2015 Facility to be applied towards any refinancing, repayment, redemption, purchase or repurchase of the 2011 Notes due in January 2016 issued by the Company, in whole or part, at or before their maturity. The 2015 Facility shall be fully repaid in May 2018 and is guaranteed by certain subsidiaries of the Company. The 2015 Facility Agreement contains the usual cross default provisions and a further requirement that Mr. Hong Tianzhu shall be and continue to be the chairman of the Board, directly or indirectly beneficially own not less than 25% of the total voting shares issued by the Company, and be and remain the single largest holder of the voting shares issued by the Company. A breach of such requirement will constitute an event of default under the 2015 Facility Agreement, and as a result, the 2015 Facility is liable to be declared immediately due and payable. The occurrence of such circumstance may trigger the cross default provisions of other banking/credit facilities available to the Group and, as a possible consequence, these other facilities may also be declared to be immediately due and payable. The 2015 Facility was fully repaid by the Company in January 2018.

As announced by the Company on 20 April 2016, by an agreement dated 20 April 2016 ("2016 Facility Agreement") entered into by, among others, Texhong Galaxy Technology Limited ("Texhong Galaxy"), a wholly-owned subsidiary of the Company, as borrower and a syndicate of banks and financial institutions as lenders, the lenders have agreed to grant a facility ("2016 Facility") in the aggregate principal amount of up to US$103,000,000 to finance the development of Texhong Galaxy's production plant in Haiha District, Quang Ninh Province, Vietnam. The 2016 Facility shall be fully repaid in April 2023 and is guaranteed by the Company.

The 2016 Facility Agreement contains a requirement that Mr. Hong Tianzhu shall maintain, directly or indirectly, the status of the largest individual shareholder of the Company and maintain the position of chairman of the Group. A breach of such requirement will constitute an event of default under the 2016 Facility Agreement, and as a result, the 2016 Facility is liable to be declared immediately due and payable. The occurrence of such circumstance may trigger the cross default provisions of other banking/credit facilities available to the Group and, as a possible consequence, these other facilities may also be declared to be immediately due and payable.

As at the date of this announcement, the Company is in compliance with the 2016 Facility Agreement.

Pledge of assets

As at 30 June 2018, the Group's machinery and equipment with a net book amount of RMB434.5 million (as at 31 December 2017: RMB180.9 million), bills receivable with a total amount of RMB95.0 million (as at 31 December 2017: nil), inventories with a total amount of RMB112.5 million (as at 31 December 2017: RMB261.2 million) and bank deposits with a total amount of RMB186.5 million (as at 31 December 2017: nil)were pledged to secure for bank borrowings for the purposes of the capital expenditure and working capital respectively. No land use rights owned by the Group has been pledged as at 30 June 2018 (as at 31 December 2017: RMB26.7 million).

Human resources

As at 30 June 2018, the Group had a total workforce of 38,781 employees (as at 31 December 2017: 38,024 employees), of whom 17,914 employees were based in the regional headquarters in Shanghai and our manufacturing plants in Mainland China. The remaining 20,867 employees were stationed in regions outside Mainland China including Vietnam, Cambodia, Nicaragua, Taiwan, Hong Kong and Macao. The Group will continuously optimize the workforce structure and offer its staff with competitive remuneration schemes. The Group is committed to promote a learning and knowledge sharing culture within the organisation. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success depends on the contributions of our skilled and motivated staff in all our functional divisions.

Dividend policy

The Board intends to maintain a long term, stable dividend payout ratio of about 30% of the Group's net profit for the year attributable to owners of the Company, providing our shareholders with reasonable returns. The Board has resolved to declare an interim dividend of 23 HK cents per share for the six months ended 30 June 2018 to shareholders whose names appear on the register of shareholders of the Company in Hong Kong on 12 September 2018.

Closure of register of members

The register of members of the Company will be closed from 8 September 2018 to 12 September 2018, both days inclusive, during which no transfer of shares can be registered. To qualify for the interim dividend (which will be payable on or about 24 September 2018), shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong no later than 4:30 p.m. on 7 September 2018.

Purchase, sale or redemption of the listed securities of the Company

There was no purchase, sale or redemption of the Company's listed securities by the Company or its subsidiaries during the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Group was committed to maintaining high level of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner.

The Board comprises five executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "Code Provisions") set out in Appendix 14 to the Listing Rules on the Stock Exchange. During the reporting period, the Company had complied with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding the Directors' securities transactions during the reporting period.

AUDIT COMMITTEE

The Company has established an audit committee which comprises three independent non-executive Directors, namely, Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Ting Leung Huel, Stephen is the chairman of the audit committee. The terms of reference of the audit committee comply with the Code Provisions. The audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board.

The audit committee has discussed with management and reviewed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2018.

REMUNERATION COMMITTEE

The remuneration committee of the Board comprises, Mr. Hong Tianzhu (the chairman and executive Director), and three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Ting Leung Huel, Stephen is the chairman of the remuneration committee. The terms of reference of the remuneration committee comply with the Code Provisions. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remuneration of the Directors and senior management and providing advice and recommendations to the Board.

NOMINATION COMMITTEE

The nomination committee of the Board comprises, Mr. Hong Tianzhu (the chairman and executive Director), and three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Hong Tianzhu is the chairman of the nomination committee. The terms of reference of the nomination committee comply with the Code Provisions. The nomination committee is principally responsible for reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors, and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors.

By order of the Board
Texhong Textile Group Limited
Hong Tianzhu
Chairman

Hong Kong, 13 August 2018

As at the date of this announcement, the Board comprises the following directors:

Executive directors:	Mr. Hong Tianzhu Mr. Zhu Yongxiang Mr. Tang Daoping Mr. Hui Tsz Wai Mr. Ji Zhongliang
Independent non-executive directors:	Mr. Ting Leung Huel, Stephen Prof. Cheng Longdi Prof. Tao Xiaoming